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CHINESE IMPORTS OF PRECISION MACHINE TOOLS

FROM THE WEST SURGE UPWARD

CIA/RR/CB
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Recent trade returns and announced Chinese orders of machine tools in Western Europe and Japan point up the slow but continuing Chinese industrial recovery and increasing defense program requirements. In 1964, China's machine tool imports from principal non-bloc suppliers increased 5.7 times over 1963 to US\$ 6.3 million, while machine tool imports from bloc nations have been reduced to a trickle over the last several years. Orders placed recently in Western Europe and Japan indicate that similar large increases will be posted in 1965 and 1966. Significantly, Chinese purchases are composed almost totally of precision and specialized types of machine tools which the Chinese are not reasonably capable of manufacturing, or not able to produce in the required quantities. While most have both strategic and non-strategic end uses, a large share is probably destined for, or in support of defense industries. The COCOM embargo on machine tools with explicit military end-uses has not been totally effective in preventing China's defense industries from receiving machine tools with important strategic end uses. China has purchased many machine tools with important defense industry applications which are not covered by the terms of the embargo as well as embargoed types in Western Europe and Japan.

1. Chinese Imports of Machine Tools

In 1964, China's imports of machine tools from principal non-bloc suppliers increased 5.7 times over 1963. While the actual amount of machinery is still small, the purchases point up the slow but continuing industrial recovery and increasing defense program requirements. Furthermore, reports of Chinese

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orders recently placed in Western Europe and Japan indicate that 1965 and 1966 imports will be considerably higher than the 1964 level. A Japanese machine tool builder expects that Japanese exports to China will reach US\$ 1.3 million in 1965. 1/

Chinese Imports of Metalcutting Machine Tools,
Selected Countries, 1963, 1964, US\$

	<u>1963</u>	<u>1964</u>
West Germany	523,000	\$2,594,000
Switzerland	172,000	1,440,000
UK	288,000	1,663,000
Japan	<u>112,000</u>	<u>614,000</u>
	\$1,095,000	\$6,311,000

It is believed that bloc sources have supplied comparatively few machine tools to China in the past few years. In 1963 the USSR sold only 6 metalcutting machine tools to China; Poland sold only one. While it is likely that the Chinese will increase moderately imports of machine tools from the bloc in future years, barring a change in intra-Communist politics, this volume should not approach the very high pre-1960 levels and China should continue to fill the great bulk of its machine tool import needs in the West. The West is able to supply the high quality that China demands in the shortest possible time with a minimum of bureaucratic delays. While generally more expensive, Western machine tools are more reliable and durable than their bloc counterparts.

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China is capable of producing nearly all of its current requirements for general purpose machine tools. These machines, when equipped with special tooling, adequately fulfill most of China's present industrial needs. In addition, excess capacity exists in the industry today; the Chinese can continue to meet general purpose machine tool requirements for the next few years without significant expansion of existing facilities. However, China is able to produce very few precision or specialized machine tools; most models are still in the prototype stage. These types are important to both future industrial growth and the production of military goods, including advanced weapons.

Significantly, China's machine tool purchases in the industrial West are composed almost solely of precision and specialized types. The USSR is willing to import machine tools it is fully capable of manufacturing, but requires in quantities too small to be produced economically. On the other hand, China's imports are composed almost totally of machine tools it is not reasonably capable of producing itself, or unable to produce in the required quantities.* Nearly all have uses in both non-strategic industries and in defense production. However, considering the high priority of the defense industry and its requirements for these types of machine tools, it is likely that most are intended directly for, or in support of defense industries.

* These types are: jig borers, heavy duty horizontal boring and milling machines, die-sinking machines, tracer controlled milling machines, gear grinders, large gear hobbers and shapers, bevel gear machines, fine pitch precision gear machines, high speed internal grinders, centerless, surface and cylindrical grinders, crankshaft lathes, precision measuring and testing equipment.

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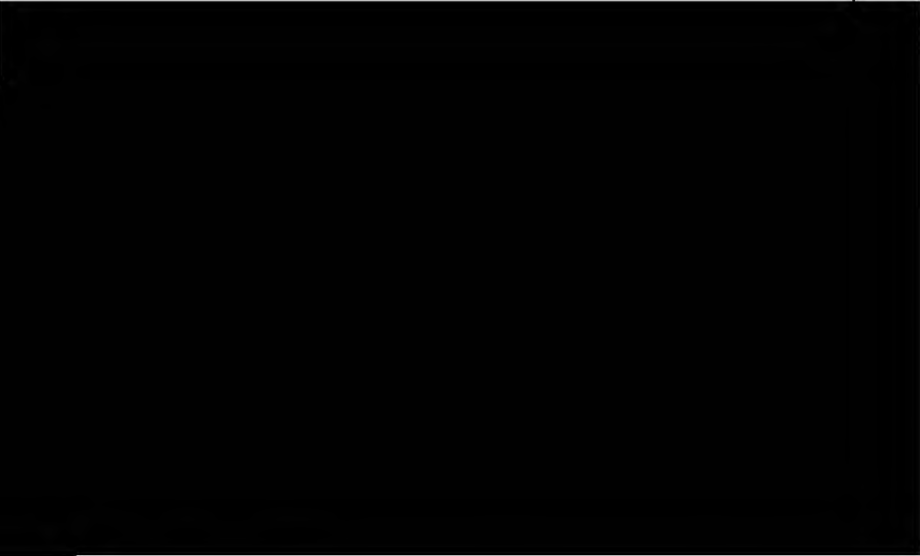
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2. The Effects of the COCOM Embargo

The COCOM embargo list for machine tools includes only types that have very explicit military end uses. Therefore it permits sale of many machine tools which could be used in civilian production but which also have important military applications. Thus, China has been and will continue to be able to satisfy much of its requirements for machine tools for defense industries in the West with relative ease.

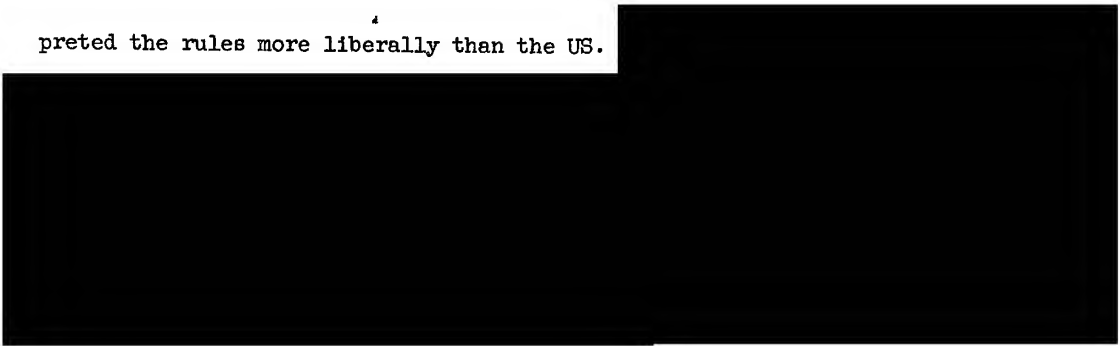
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But in addition, China has also received COCOM embargoed machine tools from the West.



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COCOM restrictions are subject to "interpretation" by the participating nations, particularly in regard to end use. For this reason, identification of clear violations is difficult. Generally, most participants have interpreted the rules more liberally than the US.




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While the COCOM embargo has not completely denied China embargoed machine tools, it has undoubtedly limited the magnitude of the flow of listed machines. Cases are known whereby Western nations have denied China fine pitch precision gear machines, high speed internal grinders, and numerically controlled machine tools. However, even a very few embargoed machines getting through enable the Chinese to eliminate critical bottlenecks in high priority defense areas. Enforcement difficulties, possible future embargo list revisions, more liberal interpretations by Western nations, and shipments from nations which do not participate in the embargo agreement will enable China to continue to receive a limited quantity of embargoed machine tools in the future.

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